



PRIME MINISTER

POLAND: URSUS TRACTOR PROJECT

When we considered actions over Poland on 8 January a number of issues were left subject to review at the end of January. One of these was the URSUS project.

The Minister for Trade has now met representatives of Massey-Ferguson-Perkins (MFP) and looked at the problems which withholding credit presents for the company. Following the recent rescue, the group is still financially weak and lost nearly £100m last year; it cannot afford even the current reduced expenditure of over £100,000 each month on the URSUS project without some definite prospect of being paid. But, if the present project team is disbanded, this probably cannot be reconstituted effectively at some future date. Also, withdrawing representatives in Poland would materially add to MFP's risk of becoming liable to claims, possibly in excess of £10m, under contract warranties which would not be extinguished by withdrawal from the project.

From MFP's point of view, the most convenient way out of the present difficulty would be to secure access to the some £7m remaining in a sterling line of credit for the project. These funds are separate from the dollar credit line which would have to be put into operation to finance the bulk of the £30m expenditure which we previously envisaged in 1982. £7m would be enough for MFP to draw a total of £4m for project services, some already due and the balance to be paid to them over the next two years and to supply some £3m worth of tractor components (some of which are already in production here) needed to keep the

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URSUS factory in operation. All of these proposed arrangements would of course have to be agreed by the Poles. Although reports from Warsaw suggest possible difficulties, I believe a rapid agreement to the provision of £7m would be sufficient, and as far as we could now go. None of the money would be at the disposal of the Poles to make new capital investments.

I seek colleagues' agreement that we should not stand in the way of using the £7m balance on the grounds that it is covered by existing contractual commitments and would primarily benefit MFP rather than the Poles. Of course instructing ECGD to proceed in this way involves adding to our credit exposure in Poland. It is possible that, if the funds could be withheld, MFP might be forced to carry on for a while using its own resources. But the group's overall position is such that I doubt whether this would be to the United Kingdom's advantage. We would be acting consistently with our position in the Community and NATO that existing contracts should be honoured.

While on the subject of large projects in Poland, perhaps I might mention that the PVC project, currently being built by a consortium headed by Petrocarbon Developments Limited, raises different issues. These are currently being considered by my Departments.

This minute is copied to those present at your 8 January meeting and to Sir Robert Armstrong. It would be helpful to MFP if we could agree this proposed action by the end of this week.

WJB

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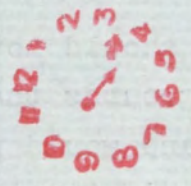
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